

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: South Huron Valley Utility Authority	County Wayne County
Audit Date December 31, 2005	Opinion Date March 1, 2006	Date Accountant Report Submitted To State: June 24, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **South Huron Valley Utility Authority**

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**Financial Report**  
**with Supplemental Information**  
**December 31, 2005**

# **South Huron Valley Utility Authority**

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## Independent Auditor's Report

To the Board of Commissioners  
South Huron Valley Utility Authority

We have audited the accompanying financial statements of the South Huron Valley Utility Authority as of December 31, 2005 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the South Huron Valley Utility Authority as of December 31, 2005 and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Huron Valley Utility Authority's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Commissioners  
South Huron Valley Utility Authority

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 1, 2006 on our consideration of the South Huron Valley Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing on internal controls over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

March 1, 2006

# **South Huron Valley Utility Authority**

## **Management's Discussion and Analysis**

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### **Using this Annual Report**

South Huron Valley Utility Authority (SHVUA or the "Authority") is a joint venture of the Charter Townships of Brownstown, Huron, and Van Buren, the cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the Village of South Rockwood. The Authority was founded in order to acquire and operate a sewage and wastewater treatment system, formerly operated by Wayne County. The Authority began operations on March 1, 1999. The Authority subcontracts all operations of the system and has no employees. This annual report consists of a series of financial statements, footnotes, and supplemental information. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year. The next section includes the notes to the financial statements, which disclose the Authority's significant accounting policies and additional information related to certain amounts included on the statement of net assets. The final component of the annual report is the supplemental information, which is provided for the purpose of additional analysis.

### **Financial Overview**

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. All debt of the Authority is backed by the full faith and credit of its eight member communities. From a financial perspective, the Authority's core objective is to manage the long-term costs of sewage disposal. In essence, the Authority acts as a conduit for its eight members. The amounts to be charged to its members will, by definition, be equal to the Authority's costs of providing sewage transportation and treatment. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

# South Huron Valley Utility Authority

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The following table presents condensed information about the Authority's financial position as of December 31, 2005 and 2004:

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Current assets	\$ 647,078	\$ 2,287,897
Noncurrent assets	<u>110,568,060</u>	<u>111,982,591</u>
Total assets	111,215,138	114,270,488
<b>Liabilities</b>		
Current liabilities	1,059,509	2,100,385
Long-term liabilities	<u>34,838,800</u>	<u>36,772,133</u>
Total liabilities	<u>35,898,309</u>	<u>38,872,518</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	72,481,912	69,339,664
Restricted for capital purposes	2,387,886	4,750,339
Unrestricted	<u>447,031</u>	<u>1,307,967</u>
Total net assets	<u><b>\$ 75,316,829</b></u>	<u><b>\$ 75,397,970</b></u>

Current assets decreased significantly due to receiving an outstanding State Revolving Fund (SRF) accounts receivable in the amount of \$1,086,265 that was due to the SHVUA as of December 31, 2004. Current liabilities also decreased by the same amount once the funds were received and payment was authorized to the SRF contractors. Restricted assets for capital purposes have decreased significantly due to exhausting the authorized SRF funds available and utilizing a portion of the prepaid share of cash submitted for equalization basin construction from the Charter Townships of Van Buren and Brownstown.

# South Huron Valley Utility Authority

## Management's Discussion and Analysis (Continued)

The following table presents condensed information about the Authority's revenues and expenses for the years ended December 31, 2005 and 2004:

	2005	2004
<b>Operating Revenue</b>	\$ 3,488,369	3,359,168
<b>Operating Expenses</b>	3,425,208	3,147,249
<b>Operating Income</b>	63,161	211,919
<b>Net Nonoperating Expenses</b>	(144,302)	(261,174)
<b>Net Loss - Before capital contributions</b>	(81,141)	(49,255)
<b>Capital Contributions</b>	-	4,734,896
<b>Change in Net Assets</b>	(81,141)	4,685,641
<b>Net Assets - Beginning of year</b>	75,397,970	70,712,329
<b>Net Assets - End of year</b>	<u><u>\$ 75,316,829</u></u>	<u><u>\$ 75,397,970</u></u>

The sewage billings from contributing communities increased by 4 percent in 2005, compared to a 17 percent increase in 2004. The billings for the Trenton Arm Pump Station and the Odette Pump Station were not increased from the amount charged in 2004.

The total operating expenses for 2005 increased by roughly 9 percent. The main increases in comparison to 2004 were due to the annual increase in the operation and maintenance expenses provided by Earthtech. In addition, the Authority entered into an agreement with an engineering company to conduct a meter study. Roughly 89 percent of the revised contracted amount (\$291,210) has been expended as of December 31, 2005.

### **Budgetary Highlights**

The amended budget projected a net deficit of \$209,252. The final net deficit was only \$111,695. The primary reason for the lower deficit than anticipated was due to expending only \$57,561 on capital expenditures when the amended budget appropriated \$175,000. Annual maintenance costs charged by Earthtech for utilities and maintenance were roughly \$23,500 more than anticipated.



# **South Huron Valley Utility Authority**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

The primary capital improvement project during the current year consisted of the continued construction of an equalization basin. The Authority is under a consent order with the Department of Environmental Quality concerning the construction of an equalization basin for the Authority's sewage treatment plant facility. The project is expected to cost approximately \$15,000,000, which is being financed through bonds and capital contributions from communities. The project consists of the construction of a six million gallon capacity flow equalization basin. The construction of the equalization basin is well under way and is on schedule to be completed in July 2006.

### **Economic Factors and Next Year's Budgets and Rates**

The SHVUA equalization basin discussed above will have a significant impact on the future cost of sewage disposal. Operation and maintenance expenses related to running the new equalization basin are expected to increase by roughly \$150,000 in 2006 and \$230,000 in subsequent years.

### **Contacting the Authority's Management**

This financial report is intended to provide the Authority's members with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member communities. If you have questions about this report or need additional information, we welcome you to contact the Authority chairperson.

# South Huron Valley Utility Authority

## Statement of Net Assets December 31, 2005

### Assets

#### Current assets:

Cash (Note 3)	\$ 315,457
Prepaid expenses	212,333
Due from other governmental units - Current portion	<u>119,288</u>

Total current assets 647,078

#### Noncurrent assets:

Due from other governmental units - Net of current portion	76,667
Restricted assets (Note 3)	3,187,886
Bond issuance costs - Net of accumulated amortization of \$4,533	59,462
Capital assets not being depreciated (Note 4)	13,174,889
Capital assets being depreciated - Net (Note 4)	<u>94,069,156</u>

Total noncurrent assets 110,568,060

Total assets 111,215,138

### Liabilities

#### Current liabilities:

Accounts payable	69,451
Accounts payable - Lookback adjustment	134,392
Accounts payable - Construction	803,786
Due to other governmental units - Current portion (Note 6)	<u>51,880</u>

Total current liabilities 1,059,509

#### Long-term liabilities:

Due to other governmental units - Net of current portion (Note 6)	76,667
Long-term debt (Note 5)	<u>34,762,133</u>

Total long-term liabilities 34,838,800

Total liabilities 35,898,309

### Net Assets

Invested in capital assets - Net of related debt	72,481,912
Restricted for capital purposes	2,387,886
Unrestricted	<u>447,031</u>

Total net assets \$ 75,316,829

# South Huron Valley Utility Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2005

### Operating Revenue

Sewage billings	\$ 3,449,616
Permit and review fees	38,753
Total operating revenue	3,488,369

### Operating Expenses

Contractual - Operation and maintenance	2,604,068
Professional fees	143,748
Insurance expense	209,663
Financial consulting	20,000
Land application fee	14,789
Meter testing	237,107
Maintenance	29,483
Net lookback adjustment	134,392
Permit and review fees	30,098
Miscellaneous expense	1,860
Total operating expenses	3,425,208

**Operating Income** 63,161

### Nonoperating Revenue (Expenses)

Debt billings to communities	2,612,503
Interest income and other	98,258
Interest expense	(730,139)
Depreciation and amortization	(2,124,924)
Net nonoperating expenses	(144,302)

**Net Loss** (81,141)

**Net Assets - Beginning of year** 75,397,970

**Net Assets - End of year** \$ 75,316,829

# South Huron Valley Utility Authority

## Statement of Cash Flows Year Ended December 31, 2005

### Cash Flows from Operating Activities

Cash received from communities	\$ 3,577,403
Cash payments to suppliers for goods and services	<u>(3,537,322)</u>
Net cash provided by operating activities	40,081

### Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt	(2,882,139)
Proceeds from State Revolving Fund monies	4,020,709
Payments for the acquisition and construction of capital assets	(6,328,894)
Collection of debt billings to communities	<u>2,612,503</u>
Net cash used in capital and related financing activities	(2,577,821)

**Cash Flows from Investing Activities** - Interest received on investments 98,258

**Net Decrease in Cash and Cash Equivalents** (2,439,482)

**Cash and Cash Equivalents** - January 1, 2005 5,942,825

**Cash and Cash Equivalents** - December 31, 2005 \$ 3,503,343

### Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 63,161
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:	
Accounts receivable	97,924
Due from other governmental units	(19,218)
Prepaid expenses	10,328
Accounts payable	<u>(112,114)</u>
Net cash provided by operating activities	<u><u>\$ 40,081</u></u>

### Statement of Net Assets Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 315,457
Restricted assets - Capital replacement and improvement (Note 3)	<u>3,187,886</u>
Total	<u><u>\$ 3,503,343</u></u>

# South Huron Valley Utility Authority

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## Notes to Financial Statements December 31, 2005

### **Note 1 - Nature of Entity**

The South Huron Valley Utility Authority (the "Authority") is a joint venture of the Charter Townships of Brownstown, Huron, and Van Buren, the cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the Village of South Rockwood. The Authority was founded in order to acquire and operate a sewage and wastewater treatment system formerly operated by Wayne County. The Authority began operations on March 1, 1999. The Authority subcontracts all operations of the system and has no employees.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

### **Note 2 - Summary of Significant Accounting Policies**

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**Reporting Entity** - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental agencies to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

**Basis of Accounting** - The accrual basis of accounting is used by the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Authority has elected not to follow private sector standards issued after November 30, 1989.

**Operating Revenue** - Operating revenue represents billings to member communities based on the Authority's cash-based operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for purposes of the statement of revenue, expenses, and changes in net assets.

**Capital Assets** - Capital assets in the amount of \$78,248,476 were transferred by Wayne County on March 1, 1999. Since the Authority had economic ownership of these assets, they were recorded at net book value. All other capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such assets is charged as a nonoperating expense of the Authority.

# South Huron Valley Utility Authority

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## Notes to Financial Statements December 31, 2005

### Note 2 - Summary of Significant Accounting Policies (Continued)

**Bond Issuance Costs** - The Authority incurred bond issuance costs in association with State Revolving Funds issued in June 2004. Total costs incurred in 2004 were \$63,995. These costs are being amortized using the straight-line method over the life of the bonds.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	60 years
Interceptors	50 years
Machinery and equipment	5-20 years
Sewer meters	10 years

**Cash Equivalents** - For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2005

### Note 3 - Deposits (Continued)

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized the Authority to deposit and invest in all investments allowed by the State statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash is subject to certain risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$3,647,304 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Authority's deposits at December 31, 2005 are included on the statement of net assets under the following classifications:

Recorded as cash	\$ 315,457
Recorded as restricted assets*	<u>3,187,886</u>
Total	<u>\$ 3,503,343</u>

\* These deposits are restricted for capital replacement and improvement. Included in this amount is \$2,387,886 of proceeds received from two communities that elected to pay for the construction project up front rather than participate in the funding of the debt issue, as well as \$800,000 of reserves.

# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2005

### Note 4 - Capital Assets

Capital assets consist of the following:

	Balance at January 1, 2005	Additions	Balance at December 31, 2005
Capital assets not being depreciated:			
Land	\$ 898,091	\$ -	\$ 898,091
Construction in progress (Note 9)	5,201,678	7,075,120	12,276,798
Subtotal	6,099,769	7,075,120	13,174,889
Capital assets being depreciated:			
Buildings	58,628,421	-	58,628,421
Interceptors	46,243,019	-	46,243,019
Machinery and equipment	788,809	57,561	846,370
Sewer meters	1,290,687	-	1,290,687
Subtotal	106,950,936	57,561	107,008,497
Less accumulated depreciation for:			
Buildings	(4,499,530)	(977,140)	(5,476,670)
Interceptors	(5,549,160)	(924,860)	(6,474,020)
Machinery and equipment	(391,390)	(90,655)	(482,045)
Sewer meters	(377,537)	(129,069)	(506,606)
Subtotal	(10,817,617)	(2,121,724)	(12,939,341)
Net capital assets being depreciated	96,133,319	(2,064,163)	94,069,156
Total capital assets - Net of depreciation	\$ 102,233,088	\$ 5,010,957	\$ 107,244,045



# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2005

### Note 5 - Long-term Debt

#### Outstanding Debt

The following is a summary of the debt outstanding of the Authority as of December 31, 2005:

	January 1, 2005	Reductions	December 31, 2005
State Revolving Fund Bonds #5028-01, dated September 1998, maturing through 2011, in the amount of \$9,680,000. Principal payments are due annually on April 1, with interest at 2.00%	\$ 5,520,000	\$ (740,000)	\$ 4,780,000
State Revolving Fund Bonds #5161-01, dated September 1998, maturing through 2020, in the amount of \$26,307,133. Principal payments are due annually on October 1, with interest at 2.25%	21,917,133	(1,155,000)	20,762,133
State Revolving Fund Bonds #5212-01, dated June 2004, maturing through 2026, in the amount of \$9,220,000. Principal payments are due annually on April 1, with interest at 2.125%	9,220,000	-	9,220,000
Meter installment loan dated September 2001, maturing through 2005, in the amount of \$1,285,000. Principal payments are due annually on November 1, with interest at 5%	257,000	(257,000)	-
Total of long-term debt outstanding	<u>\$ 36,914,133</u>	<u>\$ (2,152,000)</u>	<u>\$ 34,762,133</u>

# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2005

### Note 5 - Long-term Debt (Continued)

#### Debt Service Requirements

The annual principal and interest requirements for the debt outstanding as of December 31, 2005 are as follows:

Years Ending December 31	Principal	Interest	Total
2006	\$ 1,935,000	\$ 555,198	\$ 2,490,198
2007	2,355,000	513,348	2,868,348
2008	2,405,000	470,586	2,875,586
2009	2,455,000	426,848	2,881,848
2010	2,510,000	382,248	2,892,248
2011-2015	9,850,000	1,892,466	11,742,466
2016-2020	10,062,133	994,302	11,056,435
2021-2025	2,630,000	201,556	2,831,556
2026	560,000	5,950	565,950
Total	<u>\$ 34,762,133</u>	<u>\$ 5,442,502</u>	<u>\$ 40,204,635</u>

#### Interest

Total interest incurred for the year ended December 31, 2005 was approximately \$730,000.

#### Debt Service Agreement

The outstanding debt of the Authority will be funded through direct billings to the community members, rather than through working capital. Therefore, the Authority has classified all outstanding debt service requirements as long-term.

### Note 6 - Due from/to Other Governmental Units

The Authority has accounts receivable approximating \$67,000 from one of its member communities for debt charges related to a new equalization basin, legal fees, and lookback charges. The member community is disputing the amount it owes and believes it to be significantly less than \$67,000.

# **South Huron Valley Utility Authority**

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## **Notes to Financial Statements December 31, 2005**

### **Note 6 - Due from/to Other Governmental Units (Continued)**

In May 2002, a lawsuit filed by one of the Authority's member communities was settled. The settlement requires the Authority to pay the filing community \$38,333 each year from December 31, 2003 through December 31, 2008. The Authority will collect the funds for this settlement through a separate billing to the member communities based on usage percentages. The related receivable and payable have been recorded at December 31, 2005.

In addition, the flow for one of the member communities was adjusted during the year. The related receivable and payable in the amount of \$13,547 have been recorded at December 31, 2005.

### **Note 7 - Commitment**

The Authority is under a consent order with the Department of Environmental Quality concerning the construction of an equalization basin for the Authority's sewage treatment plant facility. The project is expected to cost approximately \$15,000,000, which is being financed through bonds. Construction in process at December 31, 2005 represents expenses incurred toward this project, which is approximately \$12,300,000. The communities have entered into a contract with the Authority, whereby the communities have agreed to pay the principal and interest on the bonds as they become due.

In addition, the Authority entered into a contract with an engineering firm to conduct a meter study. The project, which began in October 2004, is expected to be completed in 2006. The total project commitment is \$291,210, of which costs of approximately \$260,000 have been incurred as of December 31, 2005.

### **Note 8 - Risk Management**

The Authority is exposed to various risks related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance for possible claims relating to these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance since inception. The Authority has no employees, and, therefore, does not have exposure to risks related to employee injuries or medical expenses.

# **South Huron Valley Utility Authority**

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## **Notes to Financial Statements December 31, 2005**

### **Note 9 - Contingency**

The Authority is involved in a claim brought by the Environmental Protection Agency regarding questioned costs incurred by Wayne County related to grants received for construction of the sewage treatment plant. The County is the former operator of the plant. The proceedings have not yet progressed to a point where a legal opinion can be reached as to the ultimate liability, if any, that may result from the resolution of this matter. The Authority has not recorded a liability at December 31, 2005.

## **Supplemental Information**

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# South Huron Valley Utility Authority

## Statement of Revenue and Expenses Budget and Actual Year Ended December 31, 2005

	Amended Budget 2005	Audited 2005	Difference
<b>Revenue</b>			
Revenue from communities:			
Plant and related costs	\$ 3,290,414	\$ 3,290,416	\$ 2
Trenton Arm Pump Station	144,200	144,200	-
Odette Pump Station	15,000	15,000	-
Permit and review fees	35,000	38,753	3,753
Interest	15,000	18,051	3,051
Total revenue	3,499,614	3,506,420	6,806
<b>Expenses</b>			
Earthtech	2,575,915	2,574,981	934
Maintenance of equipment	25,000	29,583	(4,583)
Insurance	209,663	209,663	-
Miscellaneous contractual	10,000	29,087	(19,087)
Financial consulting	20,000	20,000	-
Professional fees	155,000	145,046	9,954
Depreciation	2,075,000	2,124,924	(49,924)
Land application fee	15,000	14,789	211
Meters - Debt service and engineering	269,850	269,636	214
Engineering - Metering and analysis	171,438	191,150	(19,712)
Meter testing	46,000	45,957	43
NPDES permit fees	13,000	13,000	-
Miscellaneous	5,000	564	4,436
Plan reviews	18,000	17,098	902
Total expenses	5,608,866	5,685,478	(76,612)
<b>Net Loss</b>	(2,109,252)	(2,179,058)	(69,806)
<b>Cash Adjustments</b>			
Depreciation	2,075,000	2,124,924	49,924
Capital improvements	(175,000)	(57,561)	117,439
Total funds provided for operations	<u>\$ (209,252)</u>	<u>\$ (111,695)</u>	<u>\$ 97,557</u>

# **South Huron Valley Utility Authority**

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## **Note to Additional Information Year Ended December 31, 2005**

### **Note - Budget and Actual Basis of Accounting**

The statement of revenue and expenses - budget and actual is prepared on the accounting method utilized when preparing the budget. This method differs from the full accrual basis of accounting in the following ways:

- Revenues and expenses are stated on cash versus a full accrual basis.
- The budgeted expenses include the current portion of principal and interest payments on the meter installment loan, since these payments are made from working capital.

Since the Authority operates as a proprietary fund, a budget is not required by the Uniform Budgeting and Accounting Act. The Authority has presented this information for purposes of additional management analysis only, and the unfavorable budget variances do not represent violations of State law.

# **South Huron Valley Utility Authority**

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**Federal Awards  
Supplemental Information  
December 31, 2005**



# South Huron Valley Utility Authority

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## Independent Auditor's Report

To the Board of Commissioners  
South Huron Valley Utility Authority

We have audited the basic financial statements of the South Huron Valley Utility Authority for the year ended December 31, 2005 and have issued our report thereon dated March 1, 2006. Those basic financial statements are the responsibility of the management of the South Huron Valley Utility Authority. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the South Huron Valley Utility Authority taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

March 1, 2006



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Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners  
South Huron Valley Utility Authority

We have audited the financial statements of the South Huron Valley Utility Authority as of and for the year ended December 31, 2005 and have issued our report thereon dated March 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the South Huron Valley Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to the management of the South Huron Valley Utility Authority in a separate letter dated March 1, 2006.

To the Board of Commissioners  
South Huron Valley Utility Authority

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the South Huron Valley Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. One of the member communities challenged the validity of the 2004 bond issuance that was presented in the December 31, 2004 basic financial statements based on the interpretation of the Authority's by-laws and noting that the bond resolution was not supported by the contracts that were referenced in the bond resolution. Subsequently, contracts were executed with the bonding communities. A court has affirmed that all communities are required to fund their respective obligation related to the bonds; however, the case is currently under appeal.

This report is intended solely for the information and use of the board of commissioners, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

March 1, 2006

Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133

To the Board of Commissioners  
South Huron Valley Utility Authority

**Compliance**

We have audited the compliance of the South Huron Valley Utility Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2005. The major federal program of the South Huron Valley Utility Authority is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the South Huron Valley Utility Authority's management. Our responsibility is to express an opinion on the South Huron Valley Utility Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the South Huron Valley Utility Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the South Huron Valley Utility Authority's compliance with those requirements.

In our opinion, the South Huron Valley Utility Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

To the Board of Commissioners  
South Huron Valley Utility Authority

## **Internal Control Over Compliance**

The management of the South Huron Valley Utility Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the South Huron Valley Utility Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of commissioners, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

March 1, 2006



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# South Huron Valley Utility Authority

## Schedule of Expenditures of Federal Awards Year Ended December 31, 2005

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
Environmental Protection Agency - State Revolving Fund Program	66.458	5212-01	<u>\$ 9,220,000</u>	<u>\$ 841,133</u>

# **South Huron Valley Utility Authority**

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## **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended December 31, 2005**

Revenue from federal sources - As reported on financial statements	\$ -
Amounts reflected as debt issued by the Authority rather than federal revenue	<u>841,133</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 841,133</b></u>



# **South Huron Valley Utility Authority**

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## **Note to Schedule of Expenditures of Federal Awards Year Ended December 31, 2005**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the South Huron Valley Utility Authority and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# South Huron Valley Utility Authority

## Schedule of Findings and Questioned Costs Year Ended December 31, 2005

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program:

CFDA Number	Federal Program	Amount
66.458	State Revolving Fund Program	\$ 841,133

Dollar threshold used to distinguish between type A and type B programs: \$500,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

# **South Huron Valley Utility Authority**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2005**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None



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March 1, 2006

To the Board of Commissioners  
South Huron Valley Utility Authority  
34001 West Jefferson  
Brownstown Township, MI 48173

Dear Commissioners:

We have recently completed our audit of the financial statements of the South Huron Valley Utility Authority for the year ended December 31, 2005. In addition to the audit report, we offer the following comments and recommendations:

Currently, the Authority maintains an operating and maintenance reserve of \$800,000. These funds are currently invested in money market accounts. The Authority may consider investing in other investment instruments allowable, as defined by state regulations that earn more attractive rates of return while maintaining approximately the same degree of investment risk.

In accordance with OMB Circular A-133, we completed the federal awards audit related to the State Revolving Funds received for construction of the Equalization Basin, noting no instances of noncompliance related to the management of the funds. The funds have been fully drawn at December 31, 2005.

The Authority's contract with Earth Tech includes a repair and maintenance component that is covered in the annual fee. Any additional repair and maintenance costs are billed separately to the Authority. We recommend the Authority review supporting documentation related to these costs as the invoices are received.

We appreciate the opportunity to serve the Authority. We would like to thank Sharry Budd and Sean Bellingham for the cooperation extended to us during the audit. If you have any questions regarding this letter, please feel free to contact us.

Yours truly,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "Gordon E. Krater".

Gordon E. Krater

A handwritten signature in black ink that reads "Stacey L. Reeves".

Stacey L. Reeves



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